

FEDERAL RESERVE SYSTEM

AFNB Holdings, Inc.
Houston, Texas

Order Approving the Formation of a Bank Holding Company

AFNB Holdings, Inc. (“Holdings”) has requested the Board’s approval under section 3 of the Bank Holding Company Act (“BHC Act”)¹ to become a bank holding company and acquire all the voting shares of American First National Bank (“AFNB”), also of Houston.

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (71 Federal Register 57,511 (2006)). The time for filing comments has expired, and the Board has considered the proposal and all comments received in light of the factors set forth in section 3 of the BHC Act.

Holdings is a newly organized corporation formed to acquire AFNB. AFNB, with total assets of approximately \$355 million, is the 102nd largest insured depository institution in Texas, controlling deposits of approximately \$313 million, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the state.²

Competitive Considerations

Section 3 of the BHC Act prohibits the Board from approving any proposal that would result in a monopoly or that would be in furtherance of an

¹ 12 U.S.C. § 1842.

² Asset data are as of September 30, 2006. Deposit data and state rankings are as of June 20, 2006, and reflect merger activity through December 6, 2006. In this context, insured depository institutions include commercial banks, savings banks, and savings associations.

attempt to monopolize the business of banking in any relevant banking market. The BHC Act also prohibits the Board from approving a proposed bank acquisition that would substantially lessen competition in any relevant banking market, unless the anticompetitive effects of the proposal are clearly outweighed in the public interest by its probable effect in meeting the convenience and needs of the community to be served.³

Holdings does not currently control a depository institution. Based on all the facts of record, the Board concludes that consummation of the proposal would have no significantly adverse effect on competition or on the concentration of banking resources in any relevant market and that competitive considerations are consistent with approval.

Financial, Managerial, and Supervisory Considerations

Section 3 of the BHC Act requires the Board to consider the financial and managerial resources and future prospects of companies and depository institutions involved in a proposal and certain other supervisory factors. The Board has considered these factors in light of all the facts of record, including confidential reports of examination and other confidential supervisory information from the Office of the Comptroller of the Currency (“OCC”), the primary federal supervisor of AFNB, publicly reported and other financial information, information provided by Holdings, and public comments received on the proposal.

In evaluating financial factors in proposals involving newly formed bank holding companies, the Board reviews the financial condition of both the applicant and the target depository institution. The Board also evaluates the financial condition of the pro forma organization, including its capital position,

³ See 12 U.S.C. § 1842(c)(1).

asset quality, and earnings prospects, and the impact of the proposed funding of the transaction.

The Board has carefully considered the financial factors of the proposal. AFNB currently is well capitalized and would remain so on consummation of the proposal. The proposed transaction is structured as a share exchange. Based on its review of the record, the Board finds that Holdings has sufficient financial resources to effect the proposal.

The Board also has considered the managerial resources of the organizations involved.⁴ The Board has reviewed the examination record of AFNB, including assessments of its management, risk-management systems, and operations. In addition, the Board has considered its supervisory experiences and those of the OCC with AFNB and its record of compliance with applicable banking laws and anti-money laundering laws. The Board has also considered the supervisory experiences of the OCC with TFNB, which was previously headed by members of the current management of AFNB. In addition, the Board has

⁴ Three commenters, including two minority shareholders of AFNB, questioned the competence and integrity of the current chairman of the board of AFNB, who also would serve as chairman of Holdings on consummation of the proposal. These commenters alleged that the chairman previously demonstrated poor performance and breached fiduciary duties while serving as chairman and chief executive officer of Texas First National Bank (“TFNB”), Houston. The Board has carefully reviewed publicly available information as well as confidential supervisory information about AFNB and TFNB in assessing the financial and managerial resources of AFNB and Holdings. In addition, the Board has consulted with the OCC, also the primary federal supervisor of TFNB, about the record of the current chairman of AFNB, including his service as chairman and chief executive officer of TFNB.

considered Holdings' plans for implementing the proposal, including the proposed management after consummation.⁵

Based on all the facts of record, the Board has concluded that considerations relating to the financial and managerial resources and future prospects of the organizations involved in the proposal are consistent with approval, as are the other supervisory factors under the BHC Act.

Convenience and Needs Considerations

In acting on proposals under section 3 of the BHC Act, the Board must also consider the effects of the proposal on the convenience and needs of the communities to be served and to take into account the records of the relevant insured depository institutions under the Community Reinvestment Act ("CRA").⁶ The Board has considered carefully all the facts of record, including reports of examination of the CRA record of AFNB, information provided by Holdings, and confidential supervisory information. AFNB received a "Satisfactory" rating at its most recent CRA performance evaluation by the OCC, as of January 20, 2004. Based on all the facts of record, the Board concludes that considerations relating to the convenience and needs factor and the CRA performance record of AFNB are consistent with approval.

⁵ Two commenters expressed concern that the bylaws of Holdings would not permit cumulative voting and would thereby reduce the ability of AFNB's minority shareholders to elect directors and exert influence on the management or policies of AFNB. The Board notes that changes in the powers of common stock are not within the limited statutory factors the Board may consider when reviewing an application under the BHC Act. See Western Bancshares, Inc. v. Board of Governors, 480 F.2d 749 (10th Cir. 1973).

⁶ 12 U.S.C. § 2901 et seq.

Conclusion

Based on the foregoing and all the facts of record, the Board has determined that the application should be, and hereby is, approved. In reaching its conclusion, the Board has considered all the facts of record in light of the factors that it is required to consider under the BHC Act and other applicable statutes. The Board's approval is specifically conditioned on compliance by Holdings with the conditions in this order and the commitments made to the Board in connection with the application. For purposes of this transaction, the conditions and commitments are deemed to be conditions imposed in writing by the Board in connection with its findings and decision and, as such, may be enforced in proceedings under applicable law.

The proposed transaction may not be consummated before the fifteenth calendar day after the effective date of this order, or later than three months after the effective date of this order, unless such period is extended for good cause by the Board or the Federal Reserve Bank of Dallas, acting pursuant to delegated authority.

By order of the Board of Governors,⁷ effective December 18, 2006.

(signed)

Robert deV. Frierson
Deputy Secretary of the Board

⁷ Voting for this action: Chairman Bernanke, Vice Chairman Kohn, and Governors Bies, Warsh, Kroszner, and Mishkin.